

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ADP-00 CAB-09 CIAE-00 COME-00 DODE-00

INR-10 NSAE-00 RSC-01 FAA-00 OMB-01 TRSE-00 SS-15

DOTE-00 NSC-10 L-03 H-03 RSR-01 /090 W

----- 081996

R 281701Z AUG 73

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TO SECSTATE WASHDC 2316

AMEMBASSY BONN

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

USMISSION NATO

AMEMBASSY MOSCOW

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EO 11652: N/A

TAGS: ETRN, PGOV, WB, GW

SUB: CIVAIR: UK CALL FOR IGS FARE HIKE, CAPACITY CUT

REF: A) STATE 167362; B) BERLIN 975; C) STATE 30985

1. SUMMARY. WHILE NOT UNEXPECTED (REF.B), MISSION BELIEVES BRITISH PROPOSAL FOR NEW IGS FARE INCREASE, IF ADOPTED, IS MORE LIKELY TO COMPOUND THAN ALLEVIATE PROBLEMS OF IGS AIRLINES BY STIMULATING FURTHER SWITCH TO SURFACE TRANSPORTATION. WE WONDER IF BEA CAN JUSTIFY 10 PERCENT RISE ON BASIS NORMAL COST INCREASES SO SOON AFTER LAST FARE HIKE, PARTICULARLY IN VIEW OF DEVALUATION OF POUND RELATIVE TO DM OVER THIS PERIOD. SINCE DECISIONS ON UTILIZATION OF NEW TEGEL AIRPORT AND ON PROPOSED TEMPELHOF RENT INCREASE MAY MAKE EVENTUAL FARE INCREASE INEVITABLE, WE BELIEVE CONSIDERATION OF QUESTION SHOULD BEST AWAIT DETERMINATION OF WHAT ADDITIONAL COSTS TO AIRLINES WILL ACTUALLY BE. END SUMMARY.

2. A 10 PERCENT FARE INCREASE FOR IGS, IF APPROVED, WOULD BE FOURTH INCREASE IN PAST 4-1/2 YEARS AND HIGHEST DURING
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THIS PERIOD. PANAM LOCALLY HAD EARLIER EXPRESSED FEAR THAT ANY

FARE INCREASE MADE NECESSARY BY A REQUIREMENT FOR SPLIT OPERATIONS AT TEMPELHOF AND TEGEL WOULD LEAD TO FURTHER DECLINE IN PASSENGERS. IN ITS SUBMISSION TO CAAS JUSTIFYING REQUEST FOR LAST YEAR'S INCREASE, PANAM ESTIMATED THAT REVENUE PASSENGER MILES WITH INCREASE WOULD BE 5 PERCENT LESS THAN IF OLD FARES CONTINUED. TOTAL TRANSIT TRAFFIC CONTINUES TO RISE (UP 13 PERCENT FIRST HALF OF 1973 COMPARED TO SAME PERIOD 1972), BUT SURFACE TRAVEL IS INCREASING AT CONSIDERABLY FASTER RATE (BY HIGHWAY, 32 PERCENT AND BY TRAIN 40 PERCENT), WITH RESULT THAT AIR TRAVEL ACCOUNTED FOR ONLY 28 PERCENT OF TRANSIT PASSENGERS DURING THIS PERIOD IN 1973 COMPARED WITH 39 PERCENT IN 1972 AND 46 PERCENT IN 1971. THE DECLINE IN AIR TRAVEL IN ABSOLUTE TERMS WAS 12 PERCENT IN 1972 VERSUS 1971, WITH A FURTHER DECREASE OF 20 PERCENT DURING THE FIRST SIX MONTHS 1973 VERSUS 1972.

3. WHILE A REQUIREMENT FOR SPLIT OPERATIONS MIGHT WELL NECESSITATE FARE INCREASE IF ADDITIONAL COSTS ENTAILED ARE NOT OTHERWISE PROVIDED FOR, BRITISH PROPOSAL IS APPARENTLY BASED ONLY ON NORMAL COST INCREASES. WE BELIEVE IT WOULD BE PREFERABLE TO DELAY CONSIDERATION OF PROPOSAL UNTIL REQUIREMENTS FOR UTILIZATION OF TEGEL AND ADDITIONAL COSTS TO AIRLINES ARE DETERMINED (INCLUDING QUESTION OF INCREASED TEMPELHOF RENTS). WE ALSO WONDER WHETHER BEA NORMAL COST INCREASES HAVE NOT BEEN OFFSET AT LEAST TO SOME EXTENT BY DEVALUATION OF BRITISH POUND RELATIVE TO DM, SINCE MOST OF BEA REVENUE IN DM WHILE CONSIDERABLE PART OF EXPENSES IN POUNDS STERLING AS BEA MAINTENANCE PERFORMED AND CREWS HOME-BASED IN UK.

4. BRITISH CONTENTION THAT LOAD FACTORS FOR BOTH PANAM AND BEA HAVE FALLEN WELL BELOW 50 PERCENT IS INCORRECT. PANAM LOAD FACTOR HAS REMAINED ABOVE 50 PERCENT ALTHOUGH BEA HAS DROPPED BELOW THAT FIGURE: JULY 1973, PANAM 52 PERCENT, BEA 43 PERCENT; JAN.-JUNE 1973, PANAM 57 PERCENT, BEA 47 PERCENT; 1972, PANAM 62 PERCENT, BEA 51 PERCENT; 1971 PANAM 69 PERCENT, BEA 58 PERCENT, FURTHERMORE, BEA LOAD FACTOR WAS ABOVE 50 PERCENT DURING APRIL, MAY AND JUNE 1973 BEFORE FALLING AGAIN IN JULY, A FALL WHICH CAN BE ATTRIBUTED AT LEAST IN PART TO UNCERTAINTIES CAUSED BY AIR CONTROLLERS' SLOWDOWN,

5. WE ARE NOT SURE WHETHER CAPACITY CUTS MENTIONED (REF.A) ARE IN LIMITED OFFICIAL USE

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ADDITION TO THOSE IN AIRLINE PROPOSALS FOR SCHEDULE CHANGES AT BEGINNING OF WINTER SCHEDULE PERIOD (NOV.1) ALREADY SUBMITTED TO CAAS, IN ACCORDANCE WITH PROCEDURES AGREED TO IN FEBRUARY (REF.C). WHILE SOME CAPACITY CUTS APPEAR INEVITABLE IN VIEW OF CONTINUED DECREASE IN AIR PASSENGERS, MISSION HOPES GUIDELINES AGREED TO AT FEBRUARY MEETING WILL CONTINUE TO BE FOLLOWED. IT MIGHT ALSO BE WELL TO REMIND BRITISH THAT AIRLINES WERE ADVISED FOLLOWING THAT MEETING THAT

ALLIED GOVERNMENTS WOULD EXPECT PROPOSED FUTURE FREQUENCY CUTS TO BE JUSTIFIED AND BALANCED BY DETERMINED MARKETING EFFORTS ON THE PART OF AIRLINES TO RECOVER LOST BUSINESS PARA 4A, (REF.C). PANAM HAS AT LEAST MADE ATTEMPT IN THIS DIRECTION WITH NEW CHARTER PROPOSALS.

6. WHILE PANAM HAS ALWAYS HELD COMPETITIVE EDGE AND WE HAVE NO INDICATION THAT IT IS LOSING MONEY HERE, IT HAS NOT BEEN ABLE TO REGARD IGS AS HIGHLY LUCRATIVE MARKET FOR SOME TIME DUE TO FALLING DEMAND AND DEPRESSED FARES COMPARED WITH LUFTHANSA FRG DOMESTIC RATES.KLEIN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 28 AUG 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: hilburpw
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973BERLIN01489
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: BERLIN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730812/aaaaaihp.tel
Line Count: 126
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: A) STATE 167362; B) BERLIN 975; C) S, TATE 30985
Review Action: RELEASED, APPROVED
Review Authority: hilburpw
Review Comment: n/a
Review Content Flags:
Review Date: 13 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <13-Aug-2001 by izenbei0>; APPROVED <24-Sep-2001 by hilburpw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CIVAIR: UK CALL FOR IGS FARE HIKE, CAPACITY CUT
TAGS: ETRN, PGOV, WB, GE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005